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Mayor Reed Releases March Budget Message

Mayor recommends opening newly-built libraries and investing in gang prevention and street repair, while cautioning that additional reforms are still needed to maintain and restore core services.

San Jose, Calif. – Mayor Chuck Reed has outlined a prudent approach to developing San Jose’s FY 2012-13 budget, calling on the City to make a limited number of strategic investments while remaining focused on conquering its ongoing fiscal challenges.

With the City projecting a modest \$10 million surplus in the upcoming 2012-13 fiscal year, Mayor Reed’s March Budget Message recommends:

- Opening the City’s four newly-constructed libraries (Bascom, Calabazas, Seven Trees, Educational Park) and the new Bascom Community Center, all of which have remained closed due to recent budget deficits.
- Allocating \$2 million in additional funding for gang prevention programs.
- Investing additional money to fully fund street maintenance and repair within a 400-mile priority network of San Jose’s most heavily used roads.
- Setting aside some of the surplus funds to address future projected deficits.

“After a decade of budget cuts, we will likely be able to avoid painful service reductions and layoffs this year, and slowly begin to address some of our community’s top priorities,” said Mayor Reed. “However, we’re not out of the woods yet.”

While San Jose’s fiscal situation has begun to improve, it is only expected to offer a one-year reprieve. The City is projecting a \$22.5 million deficit in FY 2013-14, primarily due to an expected increase in retirement costs. In addition, the City has an additional \$105 million in annual road and infrastructure maintenance needs that have not been funded and the City Manager has estimated that it would cost \$33 million annually to restore critical services that were cut last year.

“These ongoing challenges underscore why we must continue implementing our Fiscal Reform Plan,” cautioned Mayor Reed. “While difficult, these reforms are absolutely necessary to maintain the services we’re funding this year, restore additional core services for our residents, and repair and rebuild our deteriorating infrastructure.”

In particular, Mayor Reed’s March Budget Message emphasized the need to address escalating retiree healthcare costs.

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Both the City and its employees are still phasing-in increases to their retiree healthcare contributions, which has left the City's two retiree healthcare plans vastly underfunded. The unfunded liability in these plans grew by approximately \$247 million in 2011 and now totals \$1.9 billion.

Retiree healthcare costs will rise dramatically once the phase-in period is complete and both the City and employees begin paying the full annual contribution. For example, the City Manager's Five Year Forecast projects that General Fund retiree healthcare costs for the Federated Plan will double in FY 2013-2014 once that plan's phase-in period is completed.

"Neither the City nor our employees can afford these looming increases in retiree healthcare costs," said Mayor Reed. "However, we also cannot continue to underfund the system, which just passes an even larger debt onto our children and grandchildren. The only viable solution is through reforms that bring our retiree healthcare costs down."

Other elements of the Fiscal Reform Plan include ending sick leave cash-outs and eliminating overtime pay for management employees. The City Council will also be considering the feasibility of potential revenue measures for the November 2012 ballot.

The Mayor's March Budget Message is posted online at:
<http://www.sanjoseca.gov/Archive.aspx?ADID=774>

Upcoming Dates in the City of San Jose's Budget Process

- The City Council will hold a public hearing on the Mayor's March Budget Message on March 13 and vote on the March Budget Message recommendations on March 20.
- Community Budget Meetings will be held in every Council District during April & May.
- The City Manager will release proposed capital budget in late April and a proposed operating budgets in early May. The City Council will then hold a series of public study sessions on the proposed budget.
- Mayor Reed will outline his final budget recommendations in his June Budget Message and the City Council must adopt a final budget before June 30.

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Note: the hyperlink in this press release was updated on Nov. 7, 2012 to direct readers to the new City of San Jose website. No other changes were made to the content of this document.